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## MINISTRY OF FINANCE

DEPARTMENT OF ECONOMIC AFFAIRS

## NOTIFICATION

*New Delhi, the 18th August, 1951*

## REPORT OF THE CENTRAL BOARD OF DIRECTORS OF THE RESERVE BANK OF INDIA FOR THE YEAR JULY 1, 1950—JUNE 30, 1951.

**S.R.O. 1308.**—In accordance with Section 53(2) of the Reserve Bank of India Act, 1934, the Central Board of Directors submits to the Central Government this Annual Report on the working of the Bank and the Accounts of the Bank for the seventeenth accounting period beginning on July 1, 1950 and ending on June 30, 1951.

2. Annual Accounts.—The Bank's income for the year under review was Rs. 11.40 crores, while the expenses of administration and provision for sundry liabilities and contingencies amounted to Rs. 3.06 crores. The net profit available for payment to the Central Government in accordance with Section 47 of the Reserve Bank of India Act, was Rs. 8.34 crores, as against Rs. 9.91 crores last year. The decrease of Rs. 1.57 crores in net profits during the year was mainly due to the heavy depreciation of securities in the Bank's investment account. This fall was, however, partially offset by higher earnings under "Discount" and "Exchange", arising from an increase in the Bank's holdings of sterling Treasury bills, and from larger sales of sterling to scheduled banks and transfers of sterling on Government account and from the resumption of trade transactions with Pakistan on February 27, 1951.

Expenditure showed an increase of Rs. 7.01 lakhs. There was an increase under "Establishment" of Rs. 10.68 lakhs, owing to a further expansion of the Department of Banking Operations and the creation during the year of the new Department of Banking Development. Other items which showed increases over last year included "Agency Charges" and "Remittance of Treasure". As against these, the cost of "Security Printing" declined by Rs. 9.51 lakhs owing to the smaller indent placed with the Nasik Press for Bank Note forms during the year.

3. Auditors.—The accounts of the Bank have been audited by Messrs. S. B. Billimoria & Co. of Bombay, Mr. P. K. Ghosh of Calcutta and Messrs. Sastri and Shah of Madras, who were appointed by the Government of India as auditors of the Bank by Notification No. F.3(44)-FI/50, dated September 20, 1950, issued in exercise of the powers conferred by Section 50 of the Reserve Bank of India Act (II of 1934).

4. Compensation to Shareholders.—Following the nationalisation of the Reserve Bank of India on January 1, 1949, the shares of the Bank were acquired\* by the Central Government. Out of a total of 5,00,000 shares (including 2,200 shares held by the Government), of the face value of Rs. 100 each, the total number of shares tendered for payment of compensation upto June 30, 1951 was 4,71,395, the number of shares tendered during the year being 11,427. The total compensation paid in

\* For details regarding compensation payable to shareholders, see the Report for 1949-50.

3 per cent. First Development Loan, 1970-75 amounted to Rs. 5.25 crores and in cash Rs. 33 lakhs.

5. Composition of the Central Board.—Mr. M. G. Mehkri, Deputy Governor, whose term of office expired on July 8, 1951, proceeded on leave from March 8, 1951. By a Notification No. F.3(15)-F1/51, dated June 13, 1951, the Central Government, in terms of Section 12(1) of the Reserve Bank of India Act, appointed Mr. Ram Nath as officiating Deputy Governor for the period June 8 to July 8, 1951, vice Mr. M. G. Mehkri.

As provided in Section 8(6) of the Reserve Bank of India Act, it was decided by lots drawn by the Central Board at their meeting held in Calcutta on December 23, 1950 that Messrs. Dharendra Nath Sen and Shrinivas would retire as Directors of the Central Board on January 14, 1951. In terms of sub-sections 1(c) and (7) of Section 8, Mr. Dharendra Nath Sen was re-nominated as a Director and the other vacancy was filled by the nomination of Sahu Jagdish Prasad.

6. Meetings of the Central Board and its Committee.—Nine meetings of the Central Board were held during the year under report, five in Bombay, two in New Delhi and one each in Calcutta and Madras. The Committee of the Central Board met 52 times, 48 times in Bombay, thrice in Calcutta and once in New Delhi.

7. Bank's Offices.—The Note Cancellation Section at Meerut, which had been temporarily closed on October 14, 1949 was reopened on February 5, 1951.

8. Bank's Premises.—Arrangements for the purchase of suitable sites in Calcutta and Madras for constructing new buildings for the Bank's Offices have been completed.

The Reserve Bank have actively considered the question of providing suitable housing accommodation for the staff. Twelve officers of the Bank and their families were provided accommodation in the building at Sion-Matunga purchased last year. Out of 440 residential quarters constructed for the Delhi staff under the Central Government's Housing Scheme, possession has been taken of 320 quarters intended for the supervising and clerical staff. The remaining 120 quarters (8 for officers and 112 for the sub-ordinate staff) are expected to be completed shortly.

9. Department of Banking Development.—The Department of Banking Development was created in October 1950, mainly with the object of giving concentrated attention to the extension of banking facilities to semi-urban areas and to the problems of rural finance. One of the principal duties of the new Department has been to implement the recommendations of the Purshotamdas Committee on rural banking. The Central Board approved the Committee's proposals for an extension of remittance facilities at reduced rates, for the provision of better facilities for exchange of notes and coin, for the removal of impediments in the way of the expansion of commercial banks in rural areas, for the improvement of the machinery of rural finance both as regards the mobilisation of rural savings and the extension of rural credit and for the development of warehousing. The Board also generally approved the Committee's proposals that the Imperial Bank should continue to be the sole agent of the Reserve Bank of India in Part A and Part C States, and that it should be persuaded to open a number of new offices for taking up treasury work. The Department of Banking Development is engaged in the arrangements necessary for an early implementation of these proposals.

10. Discussions were held between the Imperial Bank and the Reserve Bank on the following issues:—

- (i) Rates of commission on turnover for the quinquennium, 1950-55.
- (ii) Liberalisation of remittance facilities.
- (iii) Liberalisation of facilities for exchange of notes and coin.
- (iv) Conversion of existing pay offices of the Imperial Bank into treasury pay offices or branches and the opening of new offices.

Certain tentative conclusions have been arrived at by the two Banks on items (i), (ii) and (iii) above; the conclusions on item (i) await the approval of the respective Central Boards. In view of the rise in the operating costs of banks, primarily as result of the awards of Bank Tribunals, it has not been possible so far to arrive at a definite schedule for the conversion of existing pay offices of the Imperial Bank into treasury pay offices or branches, and for opening new offices of the Bank.

11. A draft agreement regarding the appointment of the Reserve Bank as bankers to Part B States is under the consideration of the Government of India and of the Governments of the States concerned.

12. With a view to the formulation of a long-term as well as short-term policy in regard to the problems of rural finance, an informal Conference of representatives of the co-operative movement and other experts on rural finance was convened in February 1951. The Conference reviewed the role of the Reserve Bank in the sphere of rural finance, and, among other things, recommended changes in the Reserve Bank of India Act with a view to extending the period of accommodation in respect of agricultural finance.

The Conference considered that a survey on an all-India basis should be made of economic conditions in rural areas with special reference to the problems of rural finance and credit. Necessary action has been initiated. The consensus of opinion at the Conference was that:—

- (a) 'mixed farming' and the processing of crops by agricultural producers should be included among purposes for which Reserve Bank finance may be extended to co-operative banks,
- (b) provision should be made for financing by the Reserve Bank of the production and marketing activities of industrial co-operatives, and
- (c) the Reserve Bank should dispense intermediate credit, for periods between 18 months and 5 years, to co-operative banks, to a limited extent.

The question of the provision of these facilities and of appropriate amendments to the Reserve Bank of India Act is under consideration. The Conference also recommended that a Standing Advisory Committee, which should be an expert rather than a representative body, should be associated with the working of the Agricultural Credit Department of the Reserve Bank.

A further and important recommendation of the Rural Banking Enquiry Committee related to the improvement and extension of the Postal Savings Bank system. A detailed investigation into the working of the Postal Savings Banks was conducted by a senior officer of the Bank and one of the Directors of Postal Services. The Bank's views on their Report were forwarded to the Government of India.

13. Other activities of the Department included (i) an examination of the effects of the Bank Award on the financial position of banks and on banking facilities, and (ii) a scrutiny of the State Financial Corporations Bill.

14. Department of Banking Operations.—The primary function of the Department of Banking Operations is the supervision of the Indian banking system. Under the Banking Companies Act, 1949, and under the Reserve Bank Act, the Reserve Bank has been invested with very wide powers of supervision and control over all banks. The nature and extent of the powers exercised by the nationalised Reserve Bank over the banking structure of the country are not generally realised and it may, therefore, be of interest to describe the more important of these powers conferred on the Reserve Bank:—

- (a) Where the Reserve Bank is satisfied that action is necessary in the public interest, it is empowered to determine the policy in relation to advances to be followed by banking companies generally or by any particular banking company. The Reserve Bank may also give directions to banking companies, either generally or individually, as to the purposes for which advances may be made, the margins to be maintained in respect of secured advances and the rates of interest to be charged on advances.
- (b) The Reserve Bank has now the power to inspect any banking company and its books and accounts. On a report by the Reserve Bank, the Central Government may prohibit any banking company from receiving fresh deposits or direct the Reserve Bank to apply for the winding up of the banking company.
- (c) The Reserve Bank may call for periodical returns or any other information relating to the business of banking companies. Specific provision has also been made for the submission of weekly statements of investments in Government securities by scheduled banks.
- (d) The Reserve Bank may caution or prohibit the banking companies generally or any individual banking company against entering into any particular transaction or class of transactions, and generally give advice to any banking company.

After an inspection under Section 35 of the Banking Companies Act the Reserve Bank is also empowered to require the banking company to call a meeting of its

directors for the purpose of considering any matter arising out of such inspection or make within a specified time such changes in its management as the Reserve Bank may consider necessary in consequence of the state of affairs disclosed by the inspection.

15. For the adequate discharge of these important functions and the exercise of these comprehensive powers of supervision and control, an effective organisation for the periodical and systematic inspection of all banks is essential. In July 1949, the Reserve Bank announced its policy to create such an organisation and ultimately to arrange for an annual inspection of every bank in the country. It is obvious, however, that inspection cannot be effective without trained personnel and the ultimate objective of an annual inspection is not, therefore, likely to be realised for another two or three years.

16. The working of the Department of Banking Operations and the progress of banking in India are described in detail in the Annual Report, which is submitted by the Reserve Bank to the Central Government under Section 36(2) of the Banking Companies Act. The first report has already been published and the second report is now under preparation. It will be sufficient for the present purpose to describe very briefly only the more significant developments in banking and the more salient features of the working of the Department of Banking Operations.

17. Inspection.—Apart from a scrutiny of the general financial position of banks, their methods of working, the nature of their assets and liabilities, etc., inspections have been made for a number of purposes under the Act, as for instance, for the issue of a licence under Section 22 of the Banking Companies Act, for reports on the financial position of banks which have applied for a moratorium, for inclusion of banks in the Second Schedule to the Reserve Bank Act, for an examination of the feasibility of the schemes of arrangement proposed by the banks and for sanctioning of schemes of amalgamation.

Under Section 22 of the Act, every company is required to obtain a licence before commencing banking business in India, but an existing banking company is allowed to carry on banking business until a licence is refused to it. No licence can, however, be refused till March 1952, and where defects have been observed in the course of inspection and statutory requirements in regard to minimum capital, etc., have not been fulfilled, the banks concerned have been directed to state what action they propose to take to make them eligible for a licence. Periodical reports have also been prescribed to enable the Reserve Bank to watch the progress made by the banks.

18. The importance of inspection of banks at an early stage is demonstrated by the developments in regard to the Bharat Bank Ltd. The liquid position of this bank was not unsatisfactory and the assets though not immediately realisable, exceeded the outside liabilities, but its methods of working, its practices in regard to grant of advances, etc., revealed in the course of inspection, might ultimately have resulted in the development of a serious position. These defects were brought to the notice of the directors of the bank, who were directed to state what steps they proposed to take in the interests of the depositors to restore the stability of the bank. After an unsuccessful attempt to reconstitute the directorate, the bank ultimately decided on a partial merger with the Punjab National Bank. Under this scheme, the Punjab National Bank took over the entire liabilities in respect of deposits in the Indian Union of the Bharat Bank against the transfer of equivalent assets comprising cash, Government securities, approved advances, etc. On March 13, 1951, when the transfer was effected, 59 branches of the Bharat Bank commenced functioning as branches of the Punjab National Bank, while the other branches were merged with the local offices of the latter. The Punjab National Bank also took over about 700 employees of the Bharat Bank so as to ensure continuity of service to the depositors and borrowers. The interests of the depositors of the Bharat Bank were fully safeguarded, for they were permitted to withdraw, if they so desired, the whole of their deposits.

19. Another outstanding event during the year was the amalgamation of four scheduled banks in West Bengal, namely, the Bengal Central Bank Ltd., the Comilla Union Bank Ltd., the Comilla Banking Corporation Ltd., and the Hooghly Bank Ltd. As a result of the failure of the Nath Bank, there was a run on all these banks, and the Reserve Bank was obliged to give adequate advances to two of these institutions to tide over the difficult position that had developed. With the approval of the Reserve Bank, these four banks formally amalgamated in December 1950. The

United Bank of India Ltd., also invited four outstanding men of integrity and business experience to join the directorate. That confidence was generated by this major scheme of amalgamation is illustrated by the following figures:—

(Figures in lakhs of rupees).

| Date       | Deposits | Liquid resources | Percentage of liquid resources to deposits |
|------------|----------|------------------|--------------------------------------------|
| 24-11-1950 | 23,60    | 12,53            | 53                                         |
| 29-12-1950 | 24,09    | 13,75            | 57                                         |
| 27-4-1951  | 25,88    | 15,74            | 61                                         |

It will be observed that within a comparatively short period of five months after the amalgamation, the deposits increased by more than Rs. 2 crores with a corresponding increase in the liquid resources of the bank by over Rs. 3 crores.

20. The notable success of these two schemes, which averted major banking crises in West Bengal and North India, appears to have created the impression that the process of merger or amalgamation is the universal remedy for solving the financial difficulties of banks in trouble. It will, therefore, be relevant to emphasise the limitations, legal and practical, which apply to any proposal for a merger.

The Reserve Bank has no statutory power to direct banks to amalgamate. Under Section 44 of the Banking Companies Act, the Reserve Bank cannot sanction any scheme of amalgamation unless it is satisfied that it is not detrimental to the interests of the depositors of any of the banks concerned. Nor can the banking companies enter into any such agreement unless the proposal is formally approved by two-thirds of the shareholders present at a special meeting convened for the purpose.

21. Amalgamation of intrinsically sound banks into larger units would certainly contribute to the stability of the banking structure, and the policy of the Reserve Bank is definitely to encourage this development as far as possible. This process is, however, practicable only in the case of a sound bank or in the case of a bank the realisable assets of which cover its outside liabilities but which is likely to be in difficulties owing to fortuitous circumstances or to the fact that its assets cannot be realised within a reasonable period. In the case of such an institution, a bigger bank may be prepared to take over the assets and pay the depositors out of its own resources if necessary. No banking institution can, however, be persuaded to agree to take over the assets and liabilities of an unsound bank when the transaction is likely to result in a loss.

22. Unfortunately, during the last war, when money was plentiful, a large number of banks were started by persons who had had no banking experience whatsoever and, as subsequent events showed, the main object in promoting banks appears to have been to finance industries in which the promoters or their friends were specially interested. Unsound banking methods and practices can be rectified in time only by a systematic and frequent inspection by the Reserve Bank.

In the United States of America the inspections of all national banks, which comprise the majority of banks belonging to the Federal Reserve System, are conducted by the Comptroller of the Currency. The other banks which belong to the System—all of them State banks—are supervised by the State authorities and inspected by them with the co-operation of the Federal Reserve Banks. Banks that are not members of the Federal Reserve System but are insured by the Federal Deposit Insurance Corporation are examined by the Corporation and the State authorities. As a result of this efficient system of inspection, the status and standards of American banking institutions have been raised to a very high level.

23. The Central Board of the Reserve Bank of India sanctioned in August 1949 a very large organisation for banking inspection at an approximate cost of Rs. 25 lakhs per annum, but, as has already been explained, the training of the personnel recruited for the purpose requires time. Special attention, however, has been given to this question, for it is realised that it is only by a timely rectification of unsound banking methods and detection of malpractices that bank failures can be minimised.

24. **Economic Developments Abroad.**—The economic situation during the year was one of increasing gravity especially on the price front not only in India, but even in the more prosperous economies of the U.S.A. and the U.K. The excessive demands for stockpiling coupled with the needs of rearmament in the U.S.A. and Western Europe soon after the outbreak of the Korean war towards the close of

June 1950 generated a fresh wave of inflation all over the world. The inflationary pressures in India that had been stimulated to a small extent by devaluation in the previous year, derived considerable momentum from these subsequent developments abroad.

**25. The Upsurge of Inflation.**—The strong inflationary impulses generated in the U.S.A. through higher price offers for primary commodities were imparted to the economies of other countries through higher prices of these commodities until about March 1951, after which the stockpiling programme was somewhat moderated, and prices of several commodities fell considerably; but the price of rubber in June 1951 was still 100 per cent. higher than a year ago, of jute 83 per cent., tin 58 per cent., wool 46 per cent. and cotton 33 per cent. The higher prices earned by the primary producing countries led to a sharp rise in their foreign exchange reserves and added to the money supply and incomes with far-reaching effects on their internal economies. For these reasons price levels recorded continuous increases both in the U.S.A. and elsewhere. Wholesale prices in the U.S.A. which had increased by 4 per cent. during the first half of 1950 rose by 17 per cent by March 1951. In the U.K. against a rise of 6 per cent. in the first half of 1950, there was a steep increase of 25 per cent. in the following eleven months. In Canada by April 1951, prices were 16 per cent higher than in June 1950. In India as compared with a rise of 4 per cent during the first half of 1950, there was an increase of 16 per cent between June 1950 and April 1951. The upward trend in prices in India seen against the international background was less marked than in some of the other countries. Following the increase in wholesale prices, the cost of living index went up by 9 per cent during 1950-51 in the U.S.A., the U.K. and Canada and by 7 per cent in India.

**26. Disinflationary Policies.**—These developments necessitated measures for curbing inflation both in the sphere of monetary policy and of physical controls. Price controls were re-imposed in a number of countries, credit curbs were tightened and interest rates were allowed to rise. In the U.K. the yield on 'Consols' touched 3.85 per cent in June 1951. The influence of higher interest rates was also reflected in the loans of mortgage corporations, overdraft rates, discount rates on fine trade bills, etc. Similar developments were noticed in the U.S.A. where the discount rate of the Federal Reserve Banks was raised from  $1\frac{1}{4}$  per cent to  $1\frac{3}{4}$  per cent, controls were re-imposed on mortgage credit and reserve and margin requirements were raised. Apart from these measures a voluntary credit restraint programme was introduced and a National Voluntary Credit Restraint Committee with 12 Sub-Committees for banks and 4 Regional Sub-Committees each for insurance companies and investment banking houses was organised.

**27. Exchange Reserves and Revaluation.**—In the sphere of international trade there was considerable improvement in the position of the non-dollar countries. The surplus of the U.S.A. with the rest of the world on current account fell from \$6.2 billion in 1949 to \$2.2 billion in 1950 and during the first part of 1951 the surplus seems to have declined further. On the other hand, the sterling area was able to achieve a dollar surplus. The sterling area's gold and dollar reserves stood in June 1951, at \$3,867 million, recording a rise of \$1,445 million during the period from July 1950 to June 1951. Canada registered an increase of \$534 million in its gold and dollar holdings between July and September 1950. This improvement in the reserves in the non-dollar currency countries and the outflow of gold from the U.S.A. led to persistent rumours of possible revaluation of the Canadian dollar and the pound sterling. This speculation brought about an increased flow of private capital away from the U.S.A. into Canada and the U.K., with the result that the existing inflationary pressures in these countries were intensified, while the foreign debt and annual service charges, especially in Canada, were enhanced. Under these circumstances the Canadian Government, unwilling to hold its rate of exchange at the existing level, but unable to determine an appropriate parity, decided on October 1, 1950, to free the rate of exchange and allow its parity to be determined in a free market. As a result of this the Canadian dollar which stood at 90-13/16 U.S. cents on October 1, 1950, rose to 96-11/16 cents by November 9, 1950, but subsequently reached a parity of 93-1/16 cents at the end of June 1951. The developments in Canada were followed by general rumours regarding the revaluation of other currencies and these were stimulated by the possibility that the U.K. might decide to revalue in order to arrest the deterioration in her terms of trade which rising prices of primary products had induced. The Economic Commission for Europe, in its Annual Report for 1950, released in May 1951, urged the revaluation of West European currencies as a disinflationary measure. Official views on this question, throughout Western Europe, U.K., U.S.A. and India, however, were doubtful as to the efficacy of this remedy, which could at best have conferred a temporary advantage if inflation continued unchecked. The International Monetary Fund urged the view that countries which had improved significantly the position of their external reserves since devaluation should first relax the existing restrictions on exchange transactions.

**28. Inflation in India.**—These external developments inevitably left their impress on the Indian economy during the year. The weight of inflationary pressure in India's case is indicated by the rise in the Economic Adviser's general index number of wholesale prices (base: year ended August 1939=100) from 395.6 in June 1950 to a peak of 457.5 in April 1951 and the Bombay Cost of Living Index (base: year ended June 1934=100) from 312 to 335. During this period, acute shortages developed in respect of capital goods, of foodgrains, cloth and other consumer goods and in particular, of industrial raw materials, such as jute and cotton. Restrictions on the exports of essential raw materials by other countries and inadequacy of shipping intensified these difficulties. The Reserve Bank of India import index number of prices of 'Food, Drink, and Tobacco' (base: 1938-39=100) rose from 447 in June 1950 to 565 by March 1951, the corresponding increase in the index for 'Raw Materials' being from 324 to 462.

The rise in the general price level during the year was itself largely the result of the increase in the prices of industrial raw materials by over 40 per cent; for, the rest of the groups of articles recorded increases of only 2½ to 18 per cent. Following a steep fall in the U.S. cotton production, there was a sharp rise in cotton prices in all cotton-producing countries and this was accentuated by the imposition of export control in the U.S.A. and the allocation of export quotas. This enabled other cotton-producing countries to levy heavy export duties, which, of course, raised the prices further.

In regard to jute, the problem in India was two-fold, namely, to prevent the world prices from exerting an upward pressure on the internal prices and to arrange for adequate supplies of the raw material for the jute mills. To deal with the situation, export duties were imposed, and an agreement was negotiated with Pakistan on February 25, 1951, according to which India was to obtain from Pakistan 10 lakh bales of raw jute by the end of June 1951 and 25 lakh bales between July 1, 1951 and June 30, 1952. Although the arrival of raw jute has not been according to expectations, there has been a considerable easing of pressure and the prices of raw jute have fallen from the peaks reached soon after decontrol.

**29. Food—Production, Procurement and Imports.**—The food situation in the country deteriorated considerably following serious damage to crops by drought and floods in parts of the country and an earthquake in Assam, the damage sustained through all these natural calamities being large. Procurement of foodgrains during 1950, therefore, could not rise above 4.63 million tons as against a target of 5.16 million tons and stocks came down from 15.81 lakh tons at the beginning of the year to 7.46 lakh tons at the end of 1950. In view of a possible eventual shortage in 1950-51, the cereal ration was reduced from 12 ozs. to 9 ozs. in January 1951, but the basic ration of 12 ozs. for heavy manual labourers was restored a month later. Efforts were intensified to obtain foodgrains from abroad. The most significant addition to our food supply, however, was made possible by the enactment by the U.S. Government on June 15, 1951 of the India Emergency Food Aid Act, which provided for the grant of a long-term loan of \$190 million to India for the purchase during the period ending June 1952, of 2 million tons of foodgrains in the U.S.A. With imports from other countries such as Australia, Canada, China, Burma and Russia, India will have in 1951 about 5.5 million tons of imported foodgrains available, and in anticipation of improved supplies, the cut in the ration was restored as from June 1951 in a number of States.

**30. Production Trends in General.**—A redeeming feature of this rather gloomy picture of the economic situation was the increase in domestic production in several industries. The official general index of industrial production (base: 1946=100) rose during the period of 10 months ended April 1951 from 104.1 to 109.0, the output of finished steel by 6.9 per cent, cement by 15.5 per cent, and jute manufactures by 4.1 per cent. Other industries which recorded increases are paper and paperboards, chemicals, power alcohol, power transformers and refractories. Among minerals, coal registered a rise of 2.1 per cent. Among raw materials, raw cotton and jute registered increases of 10 per cent and 6.6 per cent over the previous season. The recovery in production is due partly to certain steps taken by Government to ensure equitable distribution of raw materials, the upward price revision permitted in the case of certain finished products and raw materials, and partial relaxation of controls as in the case of sugar, the production of which in excess of a specified quota to be delivered to Government was allowed to be sold in the free market. The improvement in industrial output might have been more pronounced but for the inadequate supplies of raw materials, which hampered production in the case of cotton and jute textiles, and the strike in the cotton textile industry in Bombay.

**31. Money and Credit Trends.**—During the year there was a sharp rise of Rs. 102 crores (Rs. 86 crores in currency and Rs. 16 crores in deposits) in money supply, as compared with an expansion of Rs. 11 crores in 1949-50 and a steep fall of Rs. 134 crores in 1948-49.

The abnormal increase in the money supply was primarily due to:—

- (a) a payments surplus, which is reflected in an increase in the sterling assets of the Reserve Bank, and
- (b) the open market purchases of Government securities made by the Reserve Bank to relieve the heavy pressure on banks for seasonal funds.

No additions were made to the monetary circulation during the year by drawing upon the Centre's cash balances. On the other hand, the Central Government's deposits with the Reserve Bank of India rose during the year by Rs. 22 crores.

Financial stringency was very acute during the busy season, which extended to about the middle of May, 1951. The net credit expansion (loans and advances, and bills discounted) of scheduled banks during the year amounted to Rs. 98 crores, which is an all-time record. In 1949-50 there had been a decline in such credit by Rs. 8 crores. The almost unprecedented character of the seasonal stringency for funds was reflected in an unusual hardening of money rates. In January 1951 the call money rate amongst the larger and the smaller banks rose to 1—1½ and 1½—1¾ per cent. respectively; deposit rates for 3 to 12 months hardened to 2—2½ per cent. In January (the highest since 1940), while the bazar bill rate rose from 8½ to 9 per cent. The Imperial Bank of India raised its *hundi* rate from 3½ per cent. (at which it had remained since January 19, 1949) to 4 per cent. on January 11, 1951. In March, the Imperial Bank raised its call rate to banks on advances against Government securities of Rs. 5 lakhs and over from 2½ per cent. to 3 per cent. and on advances below Rs. 5 lakhs from 3 per cent. to 3½ per cent.\*

The expansion in the volume of bank credit during the busy season reached the record figure of Rs. 180 crores, the corresponding figure for the previous busy season being Rs. 91 crores. This abnormally heavy pressure on bank credit was due to several factors, external as well as internal, the principal cause being the sharp increase in the prices of raw materials and commodities after the Korean War. Considerably larger finance was required from banks for carrying the same quantity of raw materials, goods in process and finished goods. Stockpiling was also a material factor contributing to the need for increased finance. Towards the end of the year, some diversion of transport capacity to the carriage of foodgrains was reported, resulting in accumulation of merchandise with traders and necessitating larger assistance from banks.

**32. Government Finances.**—A salient feature of the finances of the Central Government since 1947-48 has been an appreciable surplus every year on revenue account, in spite of increased expenditure on civil as well as defence services. These surpluses have, however, been more than wiped out by deficits on capital account, arising from the excess of capital expenditure and loans to States over Central borrowings. As a result of these overall deficits the cash balances of the Central Government have declined from Rs. 270 crores after the Partition to Rs. 151 crores at the end of March 1951. In the Budget for 1951-52 as finally adopted by Parliament, the revenue surplus has been estimated at Rs. 26.10 crores and the deficit on capital account at Rs. 77.83 crores. The overall deficit is estimated at Rs. 51.88 crores including Rs. 15 lakhs of net miscellaneous disbursements.

According to the revised estimates for 1950-51, the total revenue and expenditure of State Governments (Part A and Part B)† on revenue account were Rs. 375.11 crores and Rs. 380.33 crores, respectively, with a deficit of Rs. 5.22 crores. In the budget estimates for 1951-52, the revenue deficit has been estimated at Rs. 3.38 crores, the revenue and expenditure being Rs. 389.37 crores and Rs. 392.75 crores, respectively. The capital allotment of the States for 1951-52 amounts to Rs. 132.61 crores, compared with Rs. 85.67 crores in 1950-51. The overall deficits, which are estimated at Rs. 75 crores in 1951-52 as against Rs. 45 crores in 1950-51 will be covered by a depletion of the cash balances, and by the liquidation of the holdings of Government of India securities.

**33.** During the year no new loan was floated by the Government of India. The 2½ per cent. Bonds, 1950, of which the outstanding amount was Rs. 35.09 crores, fell due for repayment on July 15, 1950. As stated in the last year's Report, Rs. 22.75 crores of this loan was converted into the new 3 per cent. Loan 1964, on June 19, 1950.

\*The old rates were temporarily restored during the period April 10 to April 24.

†Excluding Rajasthan, for which data are not available.



With a view to encouraging savings among the middle and lower income groups, the Government of India announced in January, 1951, the issue of 3½ per cent. (tax free) Ten-Year Treasury Savings Deposit Certificates from February 1, 1951. A simplified procedure in regard to the purchase of the certificates and collection of interests has been adopted for the convenience of the subscribers. Interest on these deposits will be paid annually at any Treasury or Sub-treasury in India or at the Public Debt Offices on completion of each period of 12 calendar months from the date of deposit. Holders, who desire to have their interest remitted to them, are permitted to forward their certificates to the Public Debt Office for safe custody, when interest will be drawn and remitted periodically. The deposits can be withdrawn at any time after a period of one year at specified rates of discount, which are less than the interest earned before withdrawal. The maximum amount that may be invested by a single individual is Rs. 25,000, by an individual with another Rs. 50,000, by charitable institutions Rs. 1,00,000 and by other institutions Rs. 50,000. In the Budget for 1951-52 the total collections for the year were estimated at Rs. 12 crores. The issue has been popular, the total collections from February 1, 1951 up to June 30, 1951, being Rs. 9.83 crores.

Post Office Savings Bank receipts and collections from National Savings Certificates (net) for the year are, respectively, Rs. 13.74 crores and Rs. 17.24 crores, as compared with Rs. 14.73 crores and Rs. 14.97 crores last year. Allowing for repayments in respect of lapsed series, net receipts under small savings amount to Rs. 25.53 crores for the year under review compared to Rs. 25.36 crores last year. Together with collections of Rs. 9.83 crores in Treasury Savings Deposits, total small savings collections (net) for the year are Rs. 35.36 crores.

34. During the year, three State Governments, viz., Madras, Bombay and Madhya Pradesh floated medium-dated loans on July 31, 1950, for Rs. 4 crores, Rs. 3 crores and Rs. 1 crore, respectively, the issue prices being Rs. 99, Rs. 99.8 and Rs. 98.8. The loans carry interest at 3 per cent. per annum and are repayable at par on July 31, 1960. All the loans were fully subscribed, the total issues amounting to Rs. 8.43 crores.

Of the Madras loan of Rs. 4 crores, Rs. 1 crore was floated as a local loan for a specific project in the Tirunelveli District. It was hoped that the ryots who benefited by the scheme would make considerable sacrifices to subscribe to the loan, and local patriotism was stimulated by intensive Government propaganda in the district. A sum of Rs. 1.28 crores was subscribed, but a subsequent analysis of the figures disclosed that a very large proportion of the subscriptions was raised by means of bank advances and not from savings of the farmers.

When the Government of Bombay desired to make a similar experiment of a local loan for the Tapi Irrigation and Development Project, permission was granted subject to the condition that subscriptions by means of bank advances should not be permitted. Considering the fact that the issue was made at the height of the busy season in February 1951 and the rate of interest and the issue price were the same as for the Bombay State loan issued in July 1950, the response was not unsatisfactory. The total subscriptions amounted to Rs. 69 lakhs.

35. **Market for Government Securities abroad.**—The markets for Government securities reflected the hardening of interest rates during the year in many of the world's leading countries. In the U.S.A. the mounting inflationary pressures generated after the outbreak of the Korean War led the Federal Reserve System strongly to advocate a return to a more flexible monetary policy with a view to restoring its initiative in regard to open market operations and restriction of credit. The Treasury, on the other hand, on budgetary and other considerations, desired continuation of the policy of low interest rates pursued during the World War II and after. The disagreement came to a head in August 1950 when the Treasury announced its Autumn Refunding Operations at the old low rates, while simultaneously the Federal Reserve approved a rise in the discount rate of the Federal Reserve Banks from 1½ to 1¾ per cent. The controversy was, however, resolved by a compromise arrived at in March 1951, when the Federal Reserve and the Treasury announced their 'full accord' and there was an offer of a new issue of 2½ per cent. (non-marketable and non-transferable) Treasury Bonds in exchange for the existing longest dated (bank ineligible) 2½ per cent. 1967-72 Bonds. The withdrawal soon after by the Federal Reserve of its support of Government bonds left the U.S.A. Bond market on its own for the first time in the post-war period.

In the U.K. the gilt-edged market was firm during the second part of 1950. After mid-January 1951, however, prices tended downwards, the deteriorating international situation and more latterly the Iranian oil dispute adding to the uncertainty which developed in the market. The 2½ per cent. Consols touched

during June 1951 levels as low as £64-5/16 and closed at the end of June at £65- with a yield of 3.85 per cent., which compares with 3.62 per cent. in June 1950 and 3.53 per cent. in December 1950.

**36. Market for Government Securities in India.**—In India as a result of abnormal seasonal demand for bank credit during the year arising largely from high prices of primary commodities, the banks were compelled to liquidate a substantial part of their investments. Gilt-edged prices in India sagged almost continuously during the year under review, in contrast with equity prices, which maintained an upward trend during the same period. Apprehensions regarding the future of interest rates, particularly in the first half of the year, following the withdrawal of official support to the market, led to a sharp fall in gilt-edged prices. On December 11, the Reserve Bank entered the market again and supported the 3 per cent. Conversion Loan, which had touched a low of Rs. 93, the yield at that level being 3.23 per cent. as against a yield of 3.09 per cent. in June 1950. The support price was reduced to Rs. 92-14 (ex-voucher) from March 15, 1951. During the last quarter of the year under review the market remained easy; the Conversion Loan continued to be quoted at Rs. 92-14. Compared with June 1950 levels, prices of other loans also fell, the decline being more pronounced in the case of longer-dateds.

**37. The Capital Market.**—With the integration of the Princely States and the measures taken or initiated in some of the States for the abolition of Zamindari, the Indian Rulers and Zamindars have not been active in the investment market, and owing to the high rates of income-tax and super-tax and the steep rise in the cost of living during the post-war years, the other traditional investors, the big business men and the upper middle-class professional men, have had no substantial savings for investment. The question of institutional investment and the encouragement of the process of financing new developments by the ploughing back of profits has, therefore, assumed considerable importance. Insurance companies and individual investors who have been severely affected by the heavy fall in the prices of industrial shares since the peak period of 1946 have, not unnaturally, shown a preference for debentures and other fixed-interest bearing investments. Consequently, even long-established business houses of standing have been obliged to raise new capital by the issue of debentures at comparatively high rates of interest. The disparity between the yields on first class debentures and Government securities, which before World War II was  $\frac{1}{2}$  per cent. to  $\frac{3}{4}$  per cent., is now  $1\frac{1}{2}$  per cent. to 2 per cent. Apart from international factors, this seems to have been the primary cause of the heavy fall in the prices of gilt-edged securities in recent years.

**38. Bullion Market.**—In view of sharp differences of opinion that had arisen between the two sections of the elected Governing Body of the Bombay Bullion Association in June 1950, the Government of Bombay temporarily superseded the Board under Section 4(1) (i) of the Bombay Forward Contracts Control Act, 1947 and appointed a new Board consisting of seven nominated members. The nominated Board held office for six months from June 26, 1950 to December 25, 1950 when, with the previous approval of the Government, a new Board consisting of elected members was formed.

Price movements in respect of bullion were mainly governed by external factors, the Korean War situation and the general rise in the price of gold in free markets. Fluctuations in gold were within a moderate range as compared to silver which particularly evinced a sharp upward tendency towards the latter part of the year. After a temporary spurt immediately following the outbreak of the Korean War, prices of the two metals generally receded until early November mainly under the influence of the usual seasonal fall in demand, heavy arrivals of smuggled gold and distress sales of gold by refugees from East Bengal. Rumours of revaluation and of official sales of bullion were also contributory factors. Thereafter, prices resumed the uptrend, the main factors influencing higher prices being the growing seasonal demand, the sharp rise in silver in the world markets, restricted arrivals of smuggled gold in view of the vigilant measures taken by the Customs authorities to prevent smuggling and the grave turn in the war situation in Korea following Chinese intervention. Ready gold, which advanced from Rs. 113-0 on June 24 to Rs. 116-3 on July 5, moved between Rs. 116 and Rs. 112-8 upto the middle of September. Subsequently, there was a decline, the quotation touching the lowest level of the year at Rs. 104-12 on November 2. Thereafter, there was a gradual recovery, the price improving to Rs. 110 by the end of November and to Rs. 114-14 by the end of March. The rate advanced sharply to touch the highest level of the year of Rs. 118-10 on April 17. Thereafter, the price was fluctuating between Rs. 118-0 and Rs. 113-11.

Following the outbreak of the Korean War, ready silver advanced from Rs. 175-6 on June 24 to Rs. 183-6 on July 10. Thereafter, a quieter trend prevailed in the

market with the quotations ranging between Rs. 184-10 and Rs. 177-7. Early in November, the market reacted sharply and touched the lowest level of the year at Rs. 176-8 in sympathy with the fall in price of gold. Thereafter, a distinct upward trend set in owing to the unfavourable turn of events in Korea, the rise in the New York price of silver from 80 to 90½ cents on January 8 giving a further fillip to the market. A bull syndicate formed by certain leading operators was able to exercise a dominant influence on the market. The ready rate advanced from Rs. 176-8 on November 4 to Rs. 197-8 by February 20, 1951. After a temporary reaction to Rs. 192-12 on February 21, prices again gradually advanced to Rs. 198-12 on March 31, 1951. Thereafter the price rose further to Rs. 206-10 by May 10. In view of the bull squeeze, special action had to be taken by the Board of the Bombay Bullion Association in the months of May and June 1951; members of the Association were asked to deposit a margin on silver at the rate of Rs. 500 per bar on forward outstanding transactions with effect from June 13 and a Committee was appointed to frame suitable bye-laws for the imposition of automatic margins. The ready rate advanced sharply to Rs. 207-0 by June 21. Later, however, the price slumped heavily to Rs. 198-2 influenced by apprehensions of drastic action by the Bombay Government.

**39. Indo-Pakistan Payments and Exchange Problems.**—With the object of resuming Indo-Pakistan trade, which had continued to remain suspended during part of the year, the two Governments commenced negotiations early in 1950 and concluded a short-term trade agreement on April 21, 1950 valid initially upto July 1950. The scope of the agreement was restricted to the exchange of certain specified commodities like cotton textiles, jute manufactures, raw jute etc. Imports into Pakistan were to be financed by Indian rupees accruing to Pakistan from raw jute supplies, for which a special account was maintained by the Reserve Bank of India. Besides the goods covered by the agreement, a number of other commodities were allowed to move freely between the two countries without any exchange or trade restrictions on either side. As, however, neither of the central banks provided the finance for these transactions in the so-called 'free' sector, they had to be arranged for either on a barter basis or through finance obtained in the 'free' market. The effect of the agreement was seen in the re-emergence of an unfavourable balance of trade with Pakistan in the half year ended December 1950 to the extent of Rs. 4.8 crores in contrast to a favourable trade balance of Rs. 2.8 crores in the first half. For the year ended 1950 India thus incurred a deficit on current account with Pakistan of only Rs. 2.0 crores. The corresponding figure for the year July 1948—June 1949 was a deficit of Rs. 34.1 crores. These two figures are, however, not comparable on account of the considerably restricted basis of trading in 1950.

40. On becoming a member of the International Monetary Fund in July 1950, Pakistan communicated the initial par value of her rupee, but owing to various circumstances the Fund's decision was delayed. In the meantime, the impetus given by the developments in Korea intensified the international stockpiling and rearmament programmes of the countries in the West. Consequently, the prices of essential raw materials were pushed up to abnormally high levels to the advantage of primary producing countries like Pakistan. India, on the other hand, experienced acute shortage of jute at a time when the demand for her jute manufactures was at its peak. In view of this radical change in the economic situation, India took the initiative in resuming trade negotiations with Pakistan and concluded an agreement on February 25, 1951 on the basis of India's acceptance of the official par value of the Pakistan rupee and exchange control with Pakistan was instituted on February 27, 1951. The International Monetary Fund announced on March 19, 1951 its acceptance of the par value of the Pakistan rupee as communicated to it by Pakistan earlier.

The new agreement covers a period of sixteen months ending June 1952 and is split up into two short-term arrangements, the first for the four months ending June 1951, and the second for the year ending June 1952. It envisages, among other things, imports from Pakistan of raw jute (35 lakh bales) and foodgrains (7.7 lakh tons) and exports to Pakistan of coal (21 lakh tons) and mill-made textiles (75,000 bales). Provision has also been made in the agreement for placing the commodities which feature largely in the border trade between the two countries under the Open General Licence, both for imports and exports. An important part of the agreement relates to the mode of settlement of the current transactions by which rupee balances accumulated with the respective central banks are convertible into sterling without any restrictions.

41. During the period under review, discussions were held at Secretariat level on various outstanding issues mainly arising from the Partition (viz., Reserve Bank assets, overall financial settlement of the two Punjabs, overall Partition settlement, etc). No satisfactory settlement could be reached and the issues were taken up at the Ministerial level. The Finance Ministers of the two countries, assisted by

the Governors of the respective central banks met in New Delhi from May 25 to May 29, 1951. Though considerable progress was made in clarifying the issues involved, an overall agreement could not be arrived at in view of incomplete factual information on many of the subjects. Discussions were, therefore, postponed to a later date.

**42. Balance of Payments Position.**—The improvement disclosed in our balance of payments after devaluation derived fresh strength after the start of the Korean war. In the quarter, July-September 1950, there was a surplus of Rs. 13·4 crores and, during the quarter October-December 1950 it increased phenomenally to Rs. 41·2 crores. The surplus in the third quarter, however, was relatively small owing to a sharp increase in the payments for imports largely on private account. During the 9 months July 1950-March 1951 the surplus in the balance of payments aggregated Rs. 70 crores, as compared to Rs. 27 crores in the period July 1949-March 1950.

Even more striking was the improvement in the payments position with the hard currency countries. The surplus with these countries during the first three quarters of the year totalled Rs. 40 crores, compared to Rs. 11·5 crores in the corresponding period of the previous year. This enabled India to contribute in the calendar year 1950, a sum of \$85 million to the Central Reserves of the sterling area, on which she had drawn heavily during the earlier period. A meeting of the Commonwealth Finance Ministers was held in London in September 1950 to review the decision taken in the previous year to reduce dollar imports to 75 per cent of the 1948 level. Though considerable satisfaction was expressed on the rise in the reserves, it was agreed that the level of the reserves was still inadequate to meet any deterioration in the area's dollar balance of payments that might result from unexpected developments. It was, therefore, decided to continue the policy of economising dollar expenditure without prescribing, however, any pre-determined ceilings in the expenditure as in the previous year.

The improvement in our balance of payments, like that of the sterling area, has been due to circumstances of a fortuitous and temporary character, and it would be premature to assume that exports can be maintained at or that imports can be restricted to their present levels.

The recent favourable balance of payments was partly a result of the immediate benefits derived from the rise in export prices. Payments, on the other hand, did not show any corresponding increase, since imports were, in most cases, subject to licences which had monetary ceilings in rupees. Moreover, the impact of the increase in the costs of imported raw materials has not yet been fully transmitted to the prices of goods from the manufacturing countries. The operation of this factor is likely to exert an adverse influence on our balance of payments as manufacturing costs are increased. There was on the whole a depletion of the stocks of export commodities as well as of import materials. The deferred effects of this are likely to be reflected in our balance of payments position in the coming year. We shall also have to provide for payment for trade deficits which are expected as a result of the new trade agreement with Pakistan. These factors point to the need for caution in drawing any inferences from the present balance of payments position.

**43. Revaluation and Sterling Sales.**—The rumours regarding the revaluation of currencies which had swept the U.K. and Western Europe had their counterpart in India though they originated somewhat later in this country. The beginning of negotiations for the Indo-Pakistan Trade Pact in February coincided with an abnormal increase in the sale by the public of forward sterling to the Reserve Bank. Sales in February were as high as £99 million as against £15·20 million which represented the normal amounts for several months in 1950. After a brief lull in the first week of March, there was a recrudescence of sales of forward sterling and the total purchases by the Reserve Bank in March amounted to £69 million. These sales were presumably in the nature of attempts to cover exchange risks expected, if a revaluation of the Indian Rupee should take place. They resumed the normal pattern after the declaration in April in Parliament by the Finance Minister that in the Government's view the revaluation of the Indian rupee was not in the best interests of India at present.

**44. Sterling Releases.**—The sterling balances agreement entered into with the U.K. in July 1948 terminated on June 30, 1951. Discussions were held between the two Governments during September 1950 with a view to a fresh long-term agreement. The salient features of the new agreement were explained by the Finance Minister in Parliament on December 7, 1950. Provision would be made for a release upto £35 million from India's sterling balances in each of the six years beginning July 1, 1951. The arrangement would be flexible, since any part of the amount

not drawn in a particular year would be carried forward for release in a later period. The two Governments would consult together, if in any year the Government of India should find it necessary to draw more than £35 million. At the time the informal discussions took place, it was considered that at the end of the six-year period the balances would fall to a figure, which India would require for a normal foreign exchange and currency reserve.

In the subsequent months India has had a very favourable balance of payments position. There has been a substantial addition to our foreign exchange reserves, which rose from Rs. 807 crores to Rs. 856 crores during the period. This has obviated the need for any draft on the agreed releases for meeting current deficits so far. In view of our requirements, however, in connection with the development programme envisaged in the Colombo Plan and the recently published Planning Commission Report, it is very likely that we shall find it necessary to draw on the unspent balances as well as the stipulated releases during the ensuing years.

**45. Finance for Reconstruction and Development.**—Two significant developments in the field of external finance for reconstruction and development during the year were the formulation of the Colombo Plan and the agreement between India and the U.S.A. under the Point-Four Programme.

The Colombo Plan is for six years (1951-57) and covers five countries in South-East Asia (India, Pakistan, Ceylon, Malaya and British Borneo).

The Plan comprises a wide variety of development schemes, which are estimated to cost a sum of £1,868 million. Out of this, India's requirements amount to £1,370 million (Rs. 1,840 crores), of which Rs. 1,030 crores will have to be met from internal resources and the balance from our sterling balances (Rs. 281 crores), loans and grants from other governments and international institutions or by an inflow of private foreign capital. Two Commonwealth Governments—Canada and Australia—have offered to contribute an aggregate \$25 million (for the first year of Colombo Plan) and £25 million (for the six-year period), respectively, towards the total cost of the Colombo Plan.

India signed a bilateral agreement on December 28, 1950 with the U.S.A. in connection with technical assistance to be made available to India under the Point-Four Programme in terms of which both countries agree to co-operate with each other in the interchange of technical knowledge and other activities for the promotion of the economic development of India. Out of the appropriation of \$34.5 million for the Point-Four Programme for the fiscal year ending June 30, 1951, \$1.2 million has been allocated to India.

By order of the  
Central Board of Directors,

B. RAMA RAU, Governor.

## APPENDIX

*Scheduled Banks*

- |                                                   |                                     |
|---------------------------------------------------|-------------------------------------|
| 1. Ajodhia Bank.                                  | 47. Indian Overseas Bank.           |
| 2. Allahabad Bank.                                | 48. Indo-Commercial Bank.           |
| 3. American Express Co., Inc.                     | 49. Indo-Mercantile Bank.           |
| 4. Andhra Bank.                                   | 50. Jodhpur Commercial Bank.        |
| 5. Australasia Bank.                              | 51. Karnani Industrial Bank.        |
| 6. Banco Nacional Ultramarino.                    | 52. Kumbakonam Bank.                |
| 7. Bank of Assam.                                 | 53. Lakshmi Commercial Bank.        |
| 8. Bank of Baroda.                                | 54. Laxmi Bank.                     |
| 9. Bank of Behar.                                 | 55. Lloyds Bank.                    |
| 10. Bank of Bikaner.                              | 56. Mahaluxmi Bank.                 |
| 11. Bank of China.                                | 57. Mercantile Bank of Hyderabad.   |
| 12. Bank of Communications.                       | 58. Mercantile Bank of India.       |
| 13. Bank of India.                                | 59. Miraj State Bank.               |
| 14. Bank of Indore.                               | 60. Nadar Bank.                     |
| 15. Bank of Jaipur.                               | 61. Narang Bank of India.           |
| 16. Bank of Maharashtra.                          | 62. National Bank of India.         |
| 17. Bank of Mysore.                               | 63. National Bank of Lahore.        |
| 18. Bank of Nagpur.                               | 64. National City Bank of New York. |
| 19. Bank of Poona.                                | 65. Nationale Handelsbank N. V.     |
| 20. Bank of Rajasthan.                            | 66. National Savings Bank.          |
| 21. Bankers' Union.                               | 67. Nedungadi Bank.                 |
| 22. Bareilly Corporation (Bank).                  | 68. Netherlands Trading Society.    |
| 23. Belgaum Bank.                                 | 69. New Bank of India.              |
| 24. Benares State Bank.                           | 70. New Citizen Bank of India.      |
| 25. Bharat Bank.                                  | 71. Oriental Bank of Commerce.      |
| 26. Bharatha Lakshmi Bank.                        | 72. Oudh Commercial Bank.           |
| 27. Calcutta National Bank.                       | 73. Palai Central Bank.             |
| 28. Canara Bank.                                  | 74. *Pandyani Bank.                 |
| 29. Canara Banking Corporation.                   | 75. Prabhat Bank.                   |
| 30. Canara Industrial and Banking Syndicate.      | 76. Pratap Bank.                    |
| 31. Central Bank of India.                        | 77. Presidency Industrial Bank.     |
| 32. Chartered Bank of India, Australia and China. | 78. Punjab and Sind Bank.           |
| 33. Comptoir National D'Escompte de Paris.        | 79. Punjab Co-operative Bank.       |
| 34. Devkaran Nanjee Banking Co.                   | 80. Punjab National Bank.           |
| 35. Dinajpore Bank.                               | 81. Sangli Bank.                    |
| 36. Eastern Bank.                                 | 82. Southern Bank.                  |
| 37. Gadodia Bank.                                 | 83. South India Bank.               |
| 38. Grindlays Bank.                               | 84. South Indian Bank.              |
| 39. Habib Bank.                                   | 85. Tanjore Permanent Bank.         |
| 40. Hind Bank.                                    | 86. Traders' Bank.                  |
| 41. Hindustan Commercial Bank.                    | 87. Travancore Bank.                |
| 42. Hindusthan Mercantile Bank.                   | 88. Travancore Forward Bank.        |
| 43. Hongkong and Shanghai Banking Corporation.    | 89. Tripura Modern Bank.            |
| 44. Hyderabad State Bank.                         | 90. Union Bank of India.            |
| 45. Imperial Bank of India.                       | 91. United Bank of India.           |
| 46. Indian Bank.                                  | 92. United Commercial Bank.         |
|                                                   | 93. United Industrial Bank.         |
|                                                   | 94. Universal Bank of India.        |
|                                                   | 95. Vysya Bank.                     |

\* Included in the Second Schedule during the year ended June 1951.

## RESERVE BANK OF INDIA

Balance Sheet as at 30th June 1951

## ISSUE DEPARTMENT

| LIABILITIES                     |                 |                     | ASSETS                                                 |                |                     |
|---------------------------------|-----------------|---------------------|--------------------------------------------------------|----------------|---------------------|
|                                 | Rs.             | A. P.               |                                                        | Rs.            | A. P.               |
| Notes held in the Banking Dept. | 34,83,74,405    | 8 0                 | A. Gold Coin and Bullion:—                             |                |                     |
| Notes in circulation            | 12,57,47,93,043 | 8 0                 | (a) Held in India                                      | 40,01,70,843   | 9 5                 |
| Total notes issued              |                 | 12,92,31,67,449 0 0 | (b) Held outside India                                 | NW             |                     |
|                                 |                 |                     | Foreign Securities                                     | 6,78,15,11,573 | 2 7                 |
|                                 |                 |                     | Total of A                                             |                | 7,18,16,82,416 12 0 |
|                                 |                 |                     | B. Rupee Coin                                          |                | 57,52,22,377 13 4   |
|                                 |                 |                     | Government of India Rupee Securities                   |                | 5,16,62,62,654 6 8  |
|                                 |                 |                     | Internal Bills of Exchange and other Commercial Paper. |                | NW                  |
| Total Liabilities               |                 | 12,92,31,67,449 0 0 | Total Assets                                           |                | 12,92,31,67,449 0 0 |

Ratio of Total of A to Liabilities : 55.572 per cent.

# BANKING DEPARTMENT

| LIABILITIES               |                |    |    | ASSETS                       |                |    |    |
|---------------------------|----------------|----|----|------------------------------|----------------|----|----|
|                           | Rs.            | A. | P. |                              |                |    |    |
| Capital paid up. . . .    | 5,00,00,000    | 0  | 0  | Notes . . . . .              | 34,83,74,405   | 8  | 0  |
| Reserve Fund . . . .      | 5,00,00,000    | 0  | 0  | Rupee Coin . . . . .         | 13,17,741      | 0  | 0  |
| Deposits:—                |                |    |    | Subsidiary Coin . . . .      | 1,15,369       | 8  | 8  |
| (a) Government:           |                |    |    | Bills Purchased and Discoun- |                |    |    |
| (1) Central Government    | 1,62,78,60,019 | 6  | 0  | ted:—                        |                |    |    |
| (2) Other Governments     | 17,04,99,085   | 9  | 3  | (a) Internal . . . . .       | 37,00,000      | 0  | 0  |
| (b) Banks . . . . .       | 58,73,85,005   | 10 | 2  | (b) External . . . . .       | Nil            |    |    |
| (c) Others . . . . .      | 71,43,00,511   | 14 | 4  | (c) Government Treasury      | 1,72,34,738    | 0  | 10 |
| Bills Payable . . . . .   | 2,36,55,815    | 12 | 6  | Bills.                       |                |    |    |
| Other Liabilities . . . . | 9,82,24,288    | 12 | 0  | Balances held abroad*        | 1,78,34,86,128 | 4  | 11 |
|                           |                |    |    | Loans and Advances to        | 7,50,00,000    | 0  | 0  |
|                           |                |    |    | Government.                  |                |    |    |
|                           |                |    |    | Other Loans and Advances     | 18,70,62,213   | 12 | 1  |
|                           |                |    |    | Investments . . . . .        | 88,11,95,197   | 10 | 0  |
|                           |                |    |    | Other Assets . . . . .       | 2,44,38,881    | 3  | 9  |
| Total Liabilities . . . . | 3,32,19,24,727 | 0  | 3  | Total Assets]                | 3,32,19,24,727 | 0  | 3  |

\*Includes Cash and Short-term Securities.



**REPORT OF THE AUDITORS**

TO THE PRESIDENT OF INDIA,

We, the undersigned Auditors of the Reserve Bank of India, do hereby report to the Central Government upon the Balance Sheet and Accounts of the Bank as at 30th June, 1951.

We have examined the above Balance Sheet with the Accounts, Certificates and Vouchers relating thereto of the Central Office and of the offices at Calcutta, Bombay and Madras and with the Returns submitted and certified by the Managers of the other Offices and Branches, which Returns are incorporated in the above Balance Sheet, and report that where we have called for explanations and information from the Central Board such information and explanations have been given and have been satisfactory. In our opinion, the Balance Sheet is a full and fair Balance Sheet containing the particulars prescribed by, and in which the assets have been valued in accordance with, the Reserve Bank of India Act, 1934, and the Regulations framed thereunder and is properly drawn up so as to exhibit a true and correct view of the state of the Bank's affairs according to the best of our information and the explanations given to us, and as shown by the Books of the Bank.

S. B. BILLIMORIA & Co.

P. K. GHOSH

SASTRI & SHAH

Auditors.

Dated 20th July 1951

**RESERVE BANK OF INDIA****Profit and Loss Account for the ended 30th June 1951**

| INCOME                                                |  | Rs.          | A. | P. |
|-------------------------------------------------------|--|--------------|----|----|
| Interest Discount, Exchange, Commission, etc.         |  | 11,39,83,085 | 1  | 3  |
|                                                       |  | 11,39,83,085 | 1  | 3  |
| EXPENDITURE                                           |  |              |    |    |
| Establishment                                         |  | 1,71,05,599  | 13 | 1  |
| Directors' and Local Board Members' fees and expenses |  | 92,309       | 6  | 0  |
| Auditors' fees                                        |  | 22,500       | 0  | 0  |
| Rent, Taxes, Insurance, Lighting, etc.                |  | 5,81,801     | 10 | 6  |
| Law charges                                           |  | 1,07,042     | 5  | 9  |
| Postage and Telegraph charges                         |  | 1,35,483     | 6  | 7  |
| Remittance of Treasure                                |  | 14,00,527    | 3  | 2  |
| Stationery etc.                                       |  | 4,27,402     | 1  | 1  |
| Security Printing—(Cheque, Note Forms, etc.)          |  | 51,43,522    | 9  | 7  |
| Depreciation and Repairs to Bank's property           |  | 7,31,827     | 3  | 7  |
| Agency charges                                        |  | 31,36,069    | 8  | 7  |
| Contributions to staff and superannuation funds       |  | 64,700       | 0  | 0  |
| Miscellaneous expenses                                |  | 10,09,041    | 4  | 8  |
| Net available balance                                 |  | 8,33,05,458  | 8  | 8  |
|                                                       |  | 11,39,83,085 | 1  | 3  |
| Surplus payable to the Central Government             |  | 8,33,05,458  | 8  | 8  |
| RESERVE FUND ACCOUNT                                  |  |              |    |    |
| By balance on 30th June 1951                          |  | 5,00,00,000  | 0  | 0  |
| By transfer from Profit and Loss Account              |  | Nil          |    |    |
| Total                                                 |  | 5,00,00,000  | 0  | 0  |

**B. RAMA RAU.***Governor.***RAM NATH***Deputy Governor***J. N. ARJUN***Chief Accountant***N. SUNDARESAN***Deputy Governor*

[No. F. 3(64)-FI/51]

**K. G. AMBEGAOKAR, Secy.**